

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

8 October 1963

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Prospects for US-Argentine Relations

SUMMARY

The Investment Guarantee Agreement (IGA) between the US and Argentina, signed earlier this year with the Guido Administration is due for consideration by the new Argentine Congress, and is almost certain to be rejected. The accompanying debates may easily lead to repudiation of Argentine contracts with various US oil companies, since these contracts are popularly identified with the IGA. The result could be a serious setback for US-Argentine relations.

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1. President-Elect Arturo Illia is due to be inaugurated on 12 October, and in other circumstances, his accession would afford an opportunity for continuing the recent favorable trend in US-Argentine relations. Illia is a moderate, personally honest and

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respected individual, who has indicated his willingness to foster even closer US-Argentine ties. The present leaders of the Argentine military are also eager to continue cooperating with the US.

2. But the circumstances are not propitious. There are two phenomena in the situation which may be particularly disruptive. The first is that Illia's political position will be weak. He was elected by a minority and can obtain a congressional majority only by arranging a coalition. To obtain essential legislation Illia must placate strongly nationalist elements in the Congress. Illia's own campaign commitments may also have circumscribed his freedom of action as President.

3. The second pitfall is the US-Argentine Investment Guarantee Agreement (IGA), a standard feature of AID programs, which was reluctantly agreed to this year by outgoing President Guido. The Argentine military, eager to secure US military aid, appear to have exerted their influence in behalf of the IGA. However, because of its provision for compulsory foreign arbitration, the IGA is offensive to Argentine nationalists. They insist that this provision is an insulting infringement of Argentine sovereignty. In view of the political pressure building against

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the IGA and Illia's need for congressional support, he probably will submit the IGA to the Congress. The Congress, almost certainly, will repudiate it.

4. While the IGA is a common device designed to reassure potential or hesitant US investors, the Argentinians argue -- with some justification -- that the former have not needed its protection. US capital has been welcomed in Argentina and has prospered there without an IGA. In fact, direct US private investment, which in 1960 totalled some \$472 million, had increased to \$656 million (1961) and to nearly \$800 million (1962) before the agreement was signed. Thus, if the agreement now comes before the Congress and is rejected, as appears likely, that very process would adversely affect continuing good relations and the climate for foreign investments.

5. More specifically, the nationalistic fervor incited by the IGA is likely to have serious repercussions on the petroleum contracts with US companies. Although these contracts have been under nationalist attack ever since they were made during the Frondizi Administration (1958-1962), they have benefitted Argentina by enabling the country to meet its requirements for crude petroleum from its own reserves. While some of the contracts will have to be

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renegotiated, others can be defended on their demonstrated merits -- a position with which Illia agrees. There is, however, a clear danger that a crescendo of nationalistic resentment against the IGA will also demand repudiation of all the petroleum contracts. Such a development would not only discourage further US private investment, but would also disrupt the substantial improvement in US-Argentine relations evidenced by prompt Argentine support during the Cuban missile base crisis.

FOR THE BOARD OF NATIONAL ESTIMATES:



SHERMAN KENT
Chairman

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MEMORANDUM FOR: Mr. Sherman Kent

Noted by DCI. O.K. for distribution to USIB.

W. Elder

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UNITED STATES GOVERNMENT

Memorandum

21 OCT 1963

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TO : The Director

DATE: 8 October 1963

FROM : AD/NE ☐

SUBJECT: Memorandum: "Prospects for US-Argentine Relations"

The attached calls attention to the likelihood of troubles in US-Argentine relations with particular reference to the Investment Guarantee Agreement.

We recommend distribution to USIB members for information.

CONCURRENCE:

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Deputy Director/Intelligence

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